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**FINANCIAL SERVICES AND THE
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28 December 2018

(By fax 2543 9197)

Mr Anthony Chu
Clerk to Public Accounts Committee
Legislative Council Secretariat
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong

Dear Mr Chu,

**Public Accounts Committee
Consideration of Chapter 3 of Director of Audit's Report No. 71
Procurement of operational equipment by the Hong Kong Police Force**

I refer to your letter of 17 December 2018 on the above subject.

I attach at Enclosure our response to Questions 2 and 3 for your action, please.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Almaz Leung'.

(Almaz Leung)

for Secretary for Financial Services
and the Treasury

**Reply of the Financial Services and the Treasury Bureau to
Questions 2 and 3**

**Part 2: Implementation of major information and communications
technology projects**

Question 2

According to paragraph 2.8, Financial and Accounting Regulation 320 stipulates that where Controlling Officers have reason to believe that funds surplus to requirements exist under a subhead, they shall immediately inform FSTB so that the excess may be reserved. However, after the issuance of the final acceptance certificate of Contract A in November 2009, HKPF had not closed the project accordingly or reported the unspent balance of \$414.7 million under Contracts A and B to FSTB. In response to the Audit Commission (“Audit”)’s enquiry in this regard, HKPF said that there were still activities to be undertaken within the CC3 project scope and the updated implementation progress of the project had been reported to FC and FSTB through the annual reports on implementation of major ICT projects up to the project closure in 2015-2016. Was FSTB aware of the unspent balance under Contracts A and B? If yes, why had the unspent balance not been reserved? If not, was FSTB satisfied that HKPF had fully complied with the Financial and Accounting Regulation 320 requirement?

As mentioned in paragraph 2.8(b) of the audit report, the progress on implementation of the Third Generation Command and Control Communications System (CC3 project) was reported to the Finance Committee (FC) and Financial Services and the Treasury Bureau (FSTB) through the annual reports on implementation of major information and communications technology (ICT) projects. However, these reports do not specifically cover funds surplus to requirements in the CC3 project.

2. Financial and Accounting Regulation (F&AR) 320 stipulates that where Controlling Officers (COs) have reason to believe that funds surplus to requirements exist under a subhead, they shall immediately inform the Secretary for Financial Services and the Treasury so that the excess may be reserved. In accordance with paragraph 2.8(a) of the audit report, the Hong Kong Police Force (HKPF) considered at that time that there were still activities to be undertaken within the CC3 project scope after issuance of the final acceptance certificate of Contract A. As additional expenditure might need to be incurred, the HKPF could not determine at that time whether and, if so, to what extent, the balance would be realised as funds surplus to requirements in the CC3 project. In other words, the HKPF did not have any reason at that point in time to believe that funds surplus to requirements existed for the CC3 project, and did not therefore see the obligation to report to FSTB under F&AR 320.

3. Having said that, in light of the audit findings, we see a need for FSTB to further strengthen the monitoring of funds surplus in capital non-works projects (i.e. administrative computer systems funded under Capital Works Reserve Fund (CWRF) Head 710, and non-administrative computer systems and communication equipment funded under CWRF Head 708). Specifically, in addition to the F&AR 320 requirement, we will implement the following measures –

- (a) For capital non-works projects approved by the Legislative Council (LegCo) in the 2019-20 legislative session and thereafter, providing the LegCo with quarterly reports on significant deviations between the accepted tender prices of the projects and the estimated provision in the approved project estimate when the deviations equal or exceed \$15 million or 10% of the original estimated provision, whichever is greater. The excess will be reserved administratively; and
- (b) prior to seeking the FC's approval of capital non-works projects, reminding the respective COs of the need to observe, among others, the requirements of reporting funds surplus under F&AR 320.

Question 3

According to paragraph 2.11, HKPF informed Audit that with an aim to provide a more comprehensive radio coverage and ensure the stability and reliability of the CC3 system, the CC3 Executive Committee approved 33 items after core system roll-out in 2006, on the premises that they were within the project scope. However, according to paragraph 2.12, FC's approval of \$948 million was for the replacement of the Second Generation Command and Control Communications System by the CC3 system and was not a blanket approval for extension and enhancement work for some ten years after the CC3 system roll-out in 2006. Can FSTB explain the requirements under Financial Circular No. 1/2004 which stipulates that Controlling Officers must satisfy themselves that there are adequate procedures to monitor expenditure in order to ensure that it is only incurred within the limits and scope authorized, and whether HKPF had complied with these requirements in charging to the CC3 project vote the expenditure of the extension and enhancement work after the CC3 system roll-out?

Enclosure

4. The Public Finance Ordinance (Cap 2) (PFO) and subsidiary regulations and circulars provide the framework for the control and management of public finances in Hong Kong. One of the major objectives of Financial Circular No. 1/2004 (the Circular) is to remind COs of their responsibilities under the PFO. Section 6(3), one of the key provisions in the PFO highlighted in Annex A to the Circular, limits expenditure to within the approved provision for each subhead. To assist COs to discharge their responsibilities under this section, the Circular reminds them that they must satisfy themselves that there are adequate procedures to monitor expenditure in order to ensure that it is only incurred within the limits and scope authorised. In the case of the HKPF, as mentioned in paragraph 2.2 of the audit report, it has put in place a three-tier governance structure (i.e. a project steering committee, a project assurance team and a project team) for monitoring the implementation of major ICT projects, including project expenditure to ensure that it is only incurred within the limits and scope authorised. As such, we consider that there were established procedures in the HKPF for monitoring the CC3 project.

5. However, we note Audit's views that the FC's approval of \$948 million was for the replacement of the Second Generation Command and Control Communications System by the CC3 system and not a blanket approval for extension and enhancement work. We agree that there is a need to strengthen the control and monitoring of expenditure more closely. In this regard, FSTB will implement additional measures as set out in paragraph 3 above.